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C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 000738

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TAGS: [BTIO](#) [ENRG](#) [EPET](#) [KZ](#)
SUBJECT: KAZAKHSTAN: CONOCOPHILLIPS UPDATES AMBASSADOR ON
"N" BLOCK, KASHAGAN

REF: A. ASTANA 204
[B. ALMATY 2157](#)
[C. ALMATY 1085](#)

Classified By: Ambassador John Ordway; Reasons 1.5(b) and (d).

[1. \(C\) Summary:](#) ConocoPhillips (CP) Executive Vice President Bill Berry told the Ambassador on the morning of December 1 that rival Shell had recently approached CP with a proposal to split the offshore "N" Block. CP had declined the offer, Berry said, pending an anticipated meeting with Kazakhstani Deputy Prime Minister Karim Masimov, whom President Nazarbayev had chosen to broker a final "N" Block deal. Following a meeting later that afternoon in which Berry received unspecified "bad news" from Energy Minister Izmukhambetov and KazMunaiGaz President Karabalin, CP urgently requested Ambassador's assistance in contacting Masimov in the U.S. Masimov and CP Chairman Jim Mulva spoke later in the day, but as of December 2 CP reported no progress in clarifying the status of their bid.

[2. \(C\) Summary \(continued\):](#) Speaking of Kashagan, Berry reported that project partners had recently selected a new design for an offshore platform judged to pose safety risks; the corresponding first-stage infrastructure will accommodate production of 300,000 barrels/day (b/d), rather than the 450,000 b/d initially planned. Berry confirmed reports (Ref A) that Chevron was seeking a role in the ongoing Kazakhstan Caspian Transportation System (KCTS) discussions, with an eye toward using the planned Eskene-Kurik pipeline to ship "second-generation" Tengiz oil. End summary.

"N" Block: CP's Status Unclear

[3. \(C\) The Ambassador opened the meeting by briefing Berry on his recent conversation with Masimov on the status of CP's bid to participate in the development of the offshore "N" Block. Masimov he explained, had confirmed that President Nazarbayev had assigned him to sort out Shell and CP's competing offers. Masimov had noted that Shell had recently improved its offer, making the two companies' bids virtually equal. The best outcome, Masimov had concluded, would be a shared deal. The Ambassador suggested that Masimov was probably hoping that Shell and CP would reach agreement on a joint proposal, thus sparing Masimov and the GOK a difficult decision. Speculating that Shell had likely received the same message from Masimov Berry informed the Ambassador that Shell had approached CP "two weeks ago" with a proposal to split the block. CP had declined, Berry said, pending an](#)

anticipated meeting with Masimov which he had hoped to hold that day, but which had been rescheduled for December 15.

¶4. (C) Berry told the Ambassador that, during an afternoon meeting with Izmukhambetov, he expected to be pressured to build a petrochemical facility as part of the "N" Block deal, as Mulva had been pressured in June (Ref B). However, he added, "no one," including Shell, would commit to building a petrochemical facility in Kazakhstan, least of all before the quantity and quality of available gas was determined. Not only was the Caspian 3,000 miles away from prospective markets -- China and Europe -- but the end products would compete with higher-value crude for limited railway capacity. Kazakhstan would do better to liquefy the feedstocks for shipment by pipeline, Berry concluded, rather than add transport costs by transforming them into solids such as polyethelene. (Note: Post will report septel on GOK efforts to gain TengizChevrOil's cooperation in a petrochemical project. End note.)

¶5. (C) CP called back after the meeting with Izmukhambetov and Karabalin, reporting that Izmukhambetov had delivered "bad news" on the "N" Block. CP asked for the Ambassador's assistance in urgently reaching Masimov who was visiting the U.S. Ambassador reached Masimov shortly thereafter, and Masimov called Mulva later on December 1, but as of the morning of December 2 CP had not received a clear sense whether Izmukhambetov's "bad news" had been authoritative. (Note: Due to concerns about cell phone security, CP did not elaborate on what the "bad news" was. A journalist told Energy Officer on December 2 that Izmukhambetov had told a colleague on December 1 that Shell would be given 35% of "N", and CP 15%, but his rumor is unconfirmed. End note.)

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Kashagan: Coping with the Design Flaw

¶6. (C) Berry reported that Kashagan partners had recently selected a new design and development plan to correct flaws discovered a year ago in the design of an offshore platform (Ref C). The new plan, he said, called for the construction of an initial 300,000 barrel/day production train, rather than the 450,000 barrel/day train initially planned. (Berry did not specify when "first oil" was expected. On November 29, however, an ExxonMobil representative told Energy Officer that the new plan entailed a delay in "first oil" "at least until 2011 -- and maybe longer.") Berry told the Ambassador that he expected the GOK to launch a fierce battle to recoup revenues lost due to the delays and cost overruns. While the Kashagan partners were "okay" from a contract perspective, no oil company can win "going toe-to-toe with a sovereign nation," and a pay-off of some magnitude seemed inevitable.

¶7. (C) Berry told the Ambassador that the other project partners had largely succeeded in diluting operator AGIP's management responsibilities, in response to partner perception that AGIP was to blame, at least in part, for the delays and cost overruns. The other companies had seconded "thirty to forty" additional managers to the project, he said, and now occupied not only the "Project Director" position but four "key" Deputy Director slots.

KCTS Process: Chevron Wants In

¶8. (C) CP's Country Manager, Nick Olds, confirmed ExxonMobil's earlier report (Ref C) that Chevron was seeking to join the ongoing Kazakhstan Caspian Transportation System (KCTS) discussions, with an eye toward shipping second-generation Tengiz volumes through a planned Eskene-Kurik pipeline in the years before CPC expansion. Project investors were hoping to finalize an MOU with the GOK before year's end, Olds said, in order to pave the way for Host Government Agreement (HGA) negotiations during 2007.

19. (C) Berry told the Ambassador that at least some of Kashagan's European partners appeared inclined to ship their Kashagan volumes through Iran, while ExxonMobil and CP were still focused on the Baku-Tblisi-Ceyhan (BTC) pipeline. With production from Azerbaijan's Azeri-Chirac-Guneshli (ACG) oil field now expected to prolong Azerbaijan's production plateau, he said, BTC shareholders (including CP) were already talking about BTC expansion. Berry expressed interest in the USTDA-financed Trans-Caspian pipeline feasibility study, commenting that, with its projected "sizable" gas reserves, the "N" block might "be the starting point" for discussions about Kazakhstan's available gas supplies.

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